GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4438
ANSWERED ON:19.05.2006
FII INFLOW
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Will the Minister of FINANCE be pleased to state:

(a) the details of the recommendations of the Expert Group on Encouraging Institutional Investment (FII) inflows and any note of dissent, if any;

(b) the reaction of the Group/Go vemment therefrom;

(c) share of FII in total capital inflows into India over the last three years, year-wise;

(d) the benefits accruing to Indian economy from FII inflows;

(e) whether such inflows heighten risks within the financial system;

(f) if so, the details thereof; and

(g) the steps taken by the Union Government thereon?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a): The main recommendations of Expert Group on `Encouraging FII Flows and Checking the Vulnerability to Speculative flows` include reckoning FII investment ceilings, if any, over and above prescribed foreign direct investment sectoral caps, encouraging FII flows by greater volume of issuance of securities in the Indian market, participation of domestic pension funds in the equity market and broad basing of eligible entities and greater flexibility to participate in the bond markets. A dissent note on the recommendations, by the RBI, include constitution of a special group to study measures to contain large volatility in FIIs and winding down of participatory notes and ceiling on debt investment based on the total stock and not on an incremental basis. The Report of the Expert Group has been placed on the website of the Ministry of Finance. (www,finmin,mic.in).

(b): The recommendations of the Report are under consideration of the Government.

(c): The data available from RBI on the share of FII in total capital inflows into the country are as follows: (In US $mn.)

	2003-04	2004-05(P)	2005-06 (April`O5 to Jan`06) (P)
a) Total Foreign investment inflow	15699	14966	15550
b) FII Investments	10918	8684	7552
(b) as a % of (a)	69.55%	58.02%	48.57%

(d): Foreign investment - both portfolio and direct varieties - supplement domestic savings and augment domestic investment without increasing the foreign debt of the country. Capital inflows into the equity market improve stock prices, lower cost of equity capital, and encourage investment by Indian firms,

(e) to (g): The Indian capital market is not only buoyant but is also endowed with a strong regulatory framework, which is conducive to greater longer term FII participation. The net FII inflows into India have been around US$10 bn. in each of the last three years. This encouraging FII flows can be attributed, among other factors, to:
Strong economic fundamentals and attractive valuation of companies. `
Improved regulatory standards, high quality of disclosure and corporate governance requirement, accounting standards, shortening of settlement cycles, efficiency of clearing and settlement systems and risk management mechanisms.
Product diversification and introduction of derivatives.
Strengthening of the rupee dollar exchange rate and low interest rates in the US.